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CENTRAL INTELLIGENCE AGENCY

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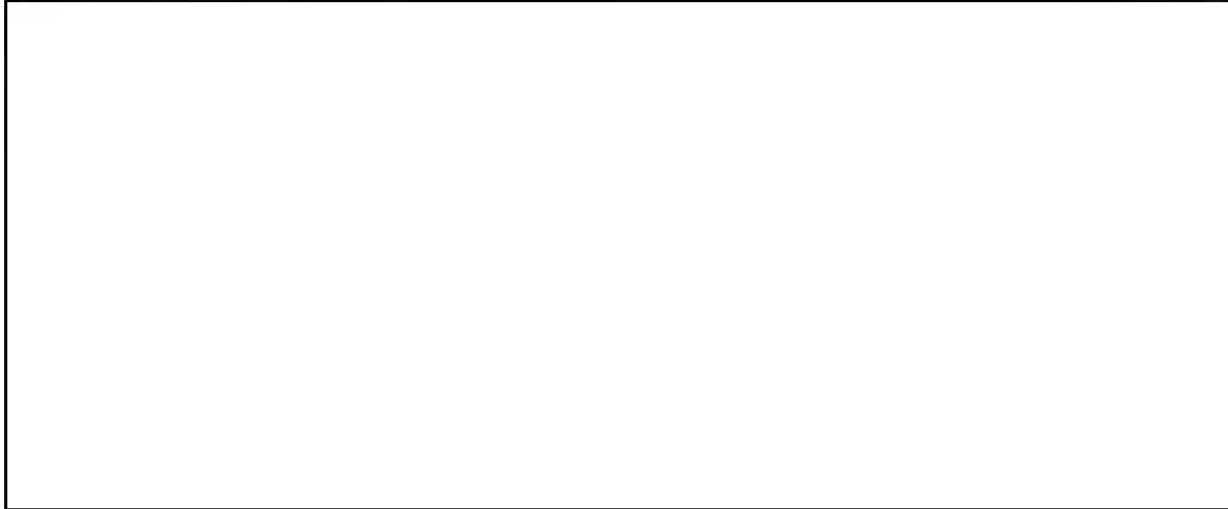
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FAR EAST

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2. Replacement of Rhee considered necessary to preserve democratic processes:

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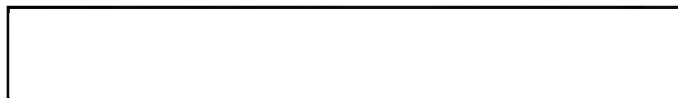
American Charge Lightner believes that any solution of the political dispute in South Korea which leaves President Rhee in power would represent a capitulation by the Assembly from

which it would never recover. He points out that Rhee would continue to whittle away at the opposition by continuing arrests, with his own supporters stepping into the vacancies. Hence, any compromise which allows Rhee to keep his office would, in Lightner's opinion, be as fatal to democratic processes as Rhee's plan to dissolve the Assembly and call for new elections.

The Prime Minister, who has recently appeared sympathetic to the Assembly opposition, advised Lightner on 4 June that without American or UN assurances of support for constitutional government the Assembly opposition might as well capitulate now as later.

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3. Comment on Communist plans for Pacific "peace" conference:

Delegates from 20 Asian and American countries, meeting in Peiping from 3 to 6 June, set the last week of September 1952 as the date for a Communist-sponsored "peace" conference of 500 representatives of Pacific states.

The September conference, according to Peiping's preliminary statement, will call upon Pacific countries to oppose Japanese "remilitarization," to "settle peacefully" the Korean conflict, and to "solve reasonably" the conflicts in Indochina and Malaya.

Peiping's pronouncements suggest that the Soviet bloc does not anticipate major developments in Korea or South-east Asia in the next four months. They also support previous indications of a temporary shift of emphasis in Asian Communist tactics away from the use of military force.

4. Chiang Kai-shek refuses to hear criticism of Formosa's defenses:

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25X1 [redacted] a survey of the defenses of Formosa in April and May disclosed that troop morale was poor and defense construction inadequate. It also uncovered serious friction between political agents and military officers and the fact that many commanders lacked the respect of their troops.

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This information was so "discouraging" to Chiang Kai-shek that he is said to have halted the first oral report and to have refused to listen to further reports or recommendations.

Comment: Information from other sources generally supports the conclusions reached by the survey team. Chiang Kai-shek's refusal to accept criticism was an important factor in Nationalist failures during and after World War II.

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5. Letourneau expected to ask considerable increase in American aid next year:

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 French Minister Resident Letourneau will request in Washington in mid-June only a small increase in American aid for Indochina in 1952, but will seek assurances, if not commitments, of a substantially larger contribution for 1953.

France's total 1953 budget for Indochina operations is expected to equal about 1.4 billion dollars, of which France would be "unable" to finance more than one billion. The French "presumably" expect the United States to make up the difference.

Comment: The anticipated request for 1953 reflects no increase over 1952 in the French financial effort, but a rise of nearly 300 percent in the American share. Such an increase would absorb the bulk of the additional 300 million dollars of over-all American support proposed by France early in May.


6. Viet Minh viewed as war-weary:

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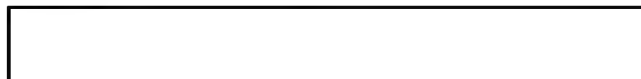
 Viet Minh forces have been weakened by heavy losses and are becoming war-weary, and that General Salan, commander of French forces, is optimistic about the military situation in Vietnam.

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Bao Dai, who is well-informed about the Viet Minh, also has information indicating its growing weakness, and that this probably hastened his decision to establish a strong authoritarian government which could bring order to the French-controlled zones.

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Comment: A deterioration in the Viet Minh position brought about by recent French clearing operations in the Tonkin delta, a continuing improvement in the French logistic position thanks to American aid, and the failure of the Viet Minh to attempt a major offensive since February may be cited as causes for this reported optimism.

The Viet Minh is expected, however, to utilize the rainy season to train its forces, bring units up to strength, and stockpile supplies from China. Prior to the Viet Minh's heavy offensive in northwestern Tonkin last September and its sustained campaign from December to February, similar reports of weakness were received.

SOUTH ASIA

7. French firm awarded contract to drill for oil in Afghanistan:

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A United Nations oil expert has reported to the American Embassy in Kabul that a French firm has been awarded a contract to drill for oil at Sar-i-Pul in north-central Afghanistan. Political considerations were reportedly the deciding factor, since the King felt that a French company would be less objectionable to the USSR than an American one.

The American Embassy believes that it will be at least six months before drilling begins.

Comment: The USSR would find French exploration for oil less than one hundred miles from the Soviet border almost as distasteful as American. The presence of any Westerners in the area might invoke a Soviet protest or demand for rights in other parts of Afghanistan. The USSR is already negotiating for the installation of oil storage tanks on the outskirts of Kabul, and has informally offered the Afghan Government assistance in drilling test holes.

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EASTERN EUROPE

8. Hungarian Ministry criticized for bauxite production failure:

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A scathing editorial in the Hungarian Communist Party newspaper on 5 June criticized the Ministry of Mining for the failure of the bauxite mines to meet their quotas for the first quarter of 1952.

In view of the importance of Hungarian bauxite to Soviet planning, the US Legation in Budapest believes that serious repercussions against the Ministry are likely. It notes that a delegation of Soviet production experts recently visited Hungary for several months.

Comment: All bauxite mines in Hungary are owned by a joint Hungarian-Soviet corporation and almost half of their production goes to the USSR. Hungary accounted for more than one-third of the Soviet Orbit's total bauxite production in 1950.

WESTERN EUROPE

9. Adenauer optimistic on early West German ratification of treaties:

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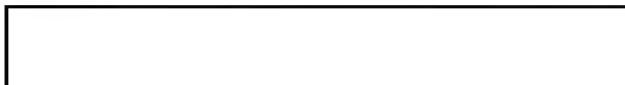


Chancellor Adenauer believes that the growing support of his coalition partners will ensure ratification of the EDC treaty and the contractual agreement before the summer recess of Parliament. The recess, however, will have to be postponed until August.

American officials in Bonn warn that the Constitutional Court issue will first have to be settled and the government's position in the Senate strengthened. Furthermore, US Senate approval of the agreement is an "indispensable prerequisite" for early ratification.

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Comment: West German ratification might be delayed by such possible developments as Allied-Russian unity discussions, the eruption of the Saar issue, or attempts by coalition groups to indulge in last-minute log-rolling.

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